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March 1990

United States General Accounting Office

Fact Sheet for the Honorable
Terry Sanford, U.S. Senate

BUDGET ISSUES

Special Analysis for Bill S. 101



386 94-20785



GAO/AFMD-90-61FS

APPENDIX I

APPENDIX I

Table I.3: Budgets Proposed in S. 101 Using OMB's Projected
Budget Numbers for Fiscal Year 1990

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United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

B-227245

March 19, 1990

The Honorable Terry Sanford
United States Senate

Dear Senator Sanford:

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This report is in response to your request that we provide current budget numbers to illustrate your bill entitled, "Balanced Budget and Debt Reduction Act of 1989" (S. 101). Specifically, you requested that we use actual fiscal year 1989 and Office of Management and Budget (OMB) projected fiscal year 1990 and 1991 budget numbers to update the schedule we provided in our report, Budget Issues: Budget Numbers for Proposed Bill S. 101 (GAO/AFMD-89-87FS), which was issued to you in June 1989. In addition, you requested that we provide a breakdown to show receipts and outlays of the Social Security Trust Funds, the budgetary effect of the Medicare Trust Funds' surpluses, and an analysis of the annual increase in gross debt and gross interest on it. Also, as agreed with your office, we compared OMB and Congressional Budget Office (CBO) initial projections for debt and borrowing for fiscal years 1986 through 1989 with the actual results that became available from OMB 2 years after the initial projections were made.

This report conveys the results of our technical assistance to you and does not represent a GAO proposal.

RESULTS IN BRIEF

We found the following:

- S. 101's breakdown into three budgets--(1) Retirement Funds, (2) Operating, and (3) Debt and Interest--shows that 83 percent of the borrowing for fiscal year 1989 was needed to finance interest on the gross debt. A projection using OMB's projected budget numbers for fiscal year 1991 indicates that interest will exceed borrowing by 18 percent in 1991.

DTIC QUALITY INSPECTED 3

- Gross interest was \$242.7 billion in fiscal year 1989, an increase of \$26.9 billion or 12 percent from 1988. According to OMB's projections, fiscal year 1990 and 1991 gross interest will increase to \$256.9 and \$263 billion, respectively.
- The fiscal year 1989 S. 101 Operating Budget deficit was \$18.7 billion, a 31 percent decrease from 1988. Assuming OMB's fiscal year 1991 projected budget numbers, this deficit will be replaced by a surplus of \$55.7 billion in 1991.
- Actual total borrowing was \$265.4 billion in fiscal year 1989, an increase of \$10.2 billion over 1988. OMB estimates borrowing at \$247.1 and \$205.9 billion in 1990 and 1991, respectively; this would represent a decrease of \$59.5 billion or 22 percent from fiscal year 1989 to 1991. OMB estimates for fiscal years 1986 through 1989 for total borrowing were always lower than actual results, by an average of \$38 billion.
- Surpluses in other trust funds included in S. 101's Operating Budget, such as the Highway and the Airport and Airways Trust Funds, cause the reported Operating Budget deficit for 1989 to be lowered by \$14.3 billion.

Our analysis of the Medicare Trust Funds shows the following:

- Removal of the Medicare Trust Funds from the Retirement Funds Budget and their inclusion in the Operating Budget would have resulted in a surplus of \$3.6 billion instead of a deficit of \$18.7 billion in the Operating Budget for fiscal year 1989.

BACKGROUND

S. 101 specifies that the budget of the United States government shall be a unified budget composed of (1) a Retirement Funds Budget, (2) an Operating Budget, and (3) a Debt and Interest Budget. The Retirement Funds Budget, which includes trust funds such as Social Security, Medicare, and Civil Service Retirement, shows the accumulated balance at the beginning of a fiscal year, all receipts and payments during the fiscal year, the fiscal year Retirement Funds surplus, and the accumulated balance at the end of the year. The Operating Budget includes all receipts and outlays that are not included in either the Retirement Funds or the Debt and Interest Budgets. The

Debt and Interest Budget shows the debt at the beginning and end of a fiscal year, and the difference between the two, which represents net borrowing for the year, is the S. 101 budget deficit. This budget also shows the total amount of expenditures for interest.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this report are to provide (1) actual fiscal year 1988 and 1989 and projected 1990 and 1991 budget numbers for the budgets proposed in S. 101, (2) a comparison of fiscal years 1988 and 1989 to show the increase or decrease in amounts reported in the three budgets, (3) a treatment of the budgetary impact of the Social Security and Medicare Trust Fund surpluses, (4) an analysis of changes in debt, borrowing, the deficit, and interest on debt, and (5) a comparison of OMB and CBO estimates for debt and borrowing to the actual results.

We relied on OMB's fiscal year 1991 budget tape and Budget of the United States Government, Fiscal Year 1991 data to prepare the restructured budgets for 1989 through 1991. For historical data, we used the OMB and CBO publications which we identify in appendix V. While OMB reports budget amounts as net of intragovernmental transactions and offsetting collections from the public, the amounts in this report include gross revenues and outlays, which include all receipts and outlays.

The six appendixes contained in this fact sheet provide the detailed information you requested.

- Appendix I provides three tables (I.1, I.3, and I.4) that combine all of the budgets contained in S. 101-- Retirement Funds, Operating, and Debt and Interest--for fiscal years 1988 through 1991. These tables also show gross receipts, outlays, and the annual deficit or surplus. Table I.2 shows the increase or decrease in amounts reported in the three budgets, which include trust fund balances; receipts and outlays; the annual surplus or deficit; and debt, borrowing, and interest on debt from fiscal year 1988 to 1989.
- Appendix II provides a breakdown of the Retirement Funds Budget to reflect both Social Security and Medicare receipts and outlays. In addition, this appendix provides a table (II.3) showing all of the budgets contained in S. 101 for fiscal year 1989 with

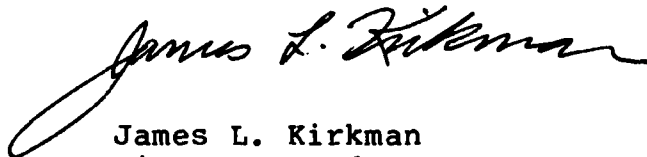
Medicare Trust Funds switched from the Retirement Funds Budget to the Operating Budget.

- Appendix III provides an analysis of the annual change in gross debt, borrowing, the deficit, and gross interest on debt.
- Appendix IV provides a comparison of OMB and CBO estimates for debt and borrowing for fiscal years 1986 through 1989 with the actual results as reported by OMB 2 years after the initial estimates were made.
- Appendix V discusses the methodology for developing the budget data for your proposal.
- Appendix VI lists the names of other major contributors to this report.

We are sending copies of this report to the Director, Office of Management and Budget; the Director, Congressional Budget Office; and other interested parties. Copies will also be available to others upon request.

I hope this information will be helpful to you. If we can be of further assistance, please contact me at (202) 275-9573.

Sincerely yours,



James L. Kirkman
Director, Budget Issues

7

C o n t e n t s

	<u>Page</u>
LETTER	1
APPENDIXES	
I BUDGETS PROPOSED IN S. 101	8
II BUDGETARY IMPACT OF THE SOCIAL SECURITY AND MEDICARE TRUST FUNDS SURPLUSES	18
III ANALYSIS OF CHANGES IN DEBT, THE DEFICIT, BORROWING, AND GROSS INTEREST ON DEBT	22
IV A COMPARISON OF OMB AND CBO ESTIMATES	28
V OBJECTIVES, SCOPE, AND METHODOLOGY	34
VI MAJOR CONTRIBUTORS TO THIS REPORT	36
TABLES	
I.1 Budgets Proposed in S. 101, Fiscal Years 1988 and 1989	10
I.2 Budgets Proposed in S. 101 - An Analysis of Increases and Decreases From Fiscal Year 1988 to 1989	12
I.3 Budgets Proposed in S. 101 Using OMB's Projected Budget Numbers for Fiscal Year 1990	14
I.4 Budgets Proposed in S. 101 Using OMB's Projected Budget Numbers for Fiscal Year 1991	16
II.1 Retirement Receipts for Fiscal Year 1989	19
II.2 Retirement Payments for Fiscal Year 1989	19
II.3 Budgets Proposed in S. 101 With Medicare Trust Funds Switched From the Retirement Funds Budget to the Operating Budget for Fiscal Year 1989	20
IV.1 Comparison of OMB and CBO Total Borrowing Estimates With Actual Amounts	28
IV.2 Comparison of OMB and CBO Public Borrowing Estimates With Actual Amounts	30

IV.3	Comparison of OMB and CBO Government Borrowing Estimates With Actual Amounts	30
IV.4	Comparison of OMB and CBO Total Debt Estimates With Actual Amounts	33
FIGURES		
III.1	The S. 101 Operating Budget Deficit or Surplus	23
III.2	Comparison of OMB and S. 101 Fiscal Years' 1988 and 1989 Deficits	24
III.3	Composition of Fiscal Year 1988 Net Borrowing	25
III.4	Composition of Fiscal Year 1989 Net Borrowing	25
III.5	Composition of Fiscal Year 1990 Net Borrowing	26
III.6	A Comparison of Gross and Net Interest for Fiscal Years 1986 Through 1991	27
IV.1	Total Borrowing	29
IV.2	Borrowing From the Public	31
IV.3	Borrowing From Government Accounts	32

ABBREVIATIONS

CBO	Congressional Budget Office
GAO	General Accounting Office
OMB	Office of Management and Budget

BUDGETS PROPOSED IN S. 101

Tables in this appendix combine the three budgets proposed in S. 101--Retirement Funds, Operating, and Debt and Interest. Table I.1 shows the budgets with fiscal year 1988 and 1989 amounts, table I.3 with the 1990 amounts projected by OMB, and table I.4 with the 1991 amounts projected by OMB. Table I.2 shows the increase or decrease in amounts reported in the three budgets, which include trust fund balances; gross receipts and outlays; the annual surplus or deficit; and debt, borrowing, and interest on debt from fiscal year 1988 to 1989.

Major changes in the S. 101 Operating Budget deficit, gross interest, the Retirement Funds surplus, and borrowing from fiscal year 1988 to 1989 include the following:

- The fiscal year 1989 Operating Budget deficit decreased by \$8.4 billion or 31 percent, while the gross interest cost increased by \$26.9 billion or 12 percent.
- The Retirement Funds' surplus increased by \$21.6 billion or 25 percent.
- Borrowing increased by \$10.2 billion or 4 percent.

OMB fiscal year 1991 projections show the following:

- Beginning in 1990, the annual interest expense recorded in the Debt and Interest Budget will make up the total deficit (as defined by S. 101); that is, the Retirement Funds Budget and the Operating Budget will be in surplus.
- The gross debt and annual gross interest amount will increase from 1990 to 1991.

The Retirement Funds Budget shows the accumulated balance of retirement funds at the beginning of a fiscal year, all receipts and payments of retirement funds during the fiscal year, the fiscal year retirement funds surplus, and the accumulated balance of retirement funds at the end of the fiscal year.

The Operating Budget for a fiscal year shows those receipts and outlays not included in the Retirement and the Debt and Interest Budgets. It also shows the amount by which outlays exceed receipts or by which receipts exceed outlays for the fiscal year. S. 101 requires that any surplus in the Operating Budget be transferred to the Debt and Interest Budget. Surpluses in trust funds such as the Highway and the Airport and Airways masked the deficit in the Operating Budget by \$9.6 and \$14.3 billion in fiscal years 1988 and 1989, respectively.

APPENDIX I

APPENDIX I

The Debt and Interest Budget shows the debt at the beginning and end of a fiscal year and the difference between the two, which represents net borrowing for the year, the S. 101 budget deficit. This budget also shows the total amount of gross interest.

The difference between net borrowing and the OMB budget deficit, except for transactions such as changes in the cash balance, represents borrowing from trust funds, both those included in the S. 101 Retirement Funds Budget and those included in the Operating Budget.

The entries in the tables of this appendix represent gross amounts from receipt and appropriation accounts which include budget, intragovernmental, and proprietary receipts and offsetting collections from the public.

Table I.1: Budgets Proposed in S. 101, Fiscal Years 1988 and 1989

Dollars in billions

<u>Retirement Funds Budget</u>			<u>Operating Budget</u>		
	<u>1988</u>	<u>1989</u>		<u>1988</u>	<u>1989</u>
Trust balances at beginning of fiscal year	\$347.1	\$435.0	Receipts		
Receipts			Personal income	\$401.2	\$445.2
Taxes and employer contributions	318.7 ^c	349.6	Corporate income	94.5	103.6
Federal contributions	97.3 ^a	104.2 ^a	Excise taxes	35.2	34.1
Interest on investments	<u>36.2^a</u>	<u>44.9^a</u>	Other receipts		
Total receipts	\$452.2	\$498.7	Other taxes and fees	68.1	69.9
Outlays (payments)	\$364.4	\$389.3	Intragovernmental receipts	32.0	32.1
Fiscal year surplus	\$ 87.8	\$109.4	Proprietary receipts	25.9	27.3
Trust balances at end of fiscal year	<u>\$435.0</u>	<u>\$544.4</u>	Offsetting collections	<u>134.0</u>	<u>129.9</u>
			Total revenues	\$790.9	\$842.1
			Total outlays	\$818.0	\$860.8
			Deficits for fiscal year	\$(27.1) ^b	\$(18.7) ^b
<hr/>					
<u>Combined Budgets on a Gross Basis</u>					
	<u>1988</u>	<u>1989</u>		<u>1988</u>	<u>1989</u>
Receipts (revenues)			Outlays (payments)		
Retirement	\$ 452.2	\$ 498.7	Retirement	\$ 364.4	\$ 389.3
Operating	790.9	842.1	Operating	818.0	860.8
			Interest on debt	<u>215.8</u>	<u>242.7</u>
Gross receipts	<u>\$1,243.1</u>	<u>\$1,340.8</u>	Gross outlays	<u>\$1,398.2</u>	<u>\$1,492.8</u>

Notes:

1. Gross data is from receipt accounts and appropriation accounts which include budget, intragovernmental, and proprietary receipts. Offsetting collections from the public have been added to both receipts and outlays.

2. Numbers may not add due to rounding.

^aThese amounts represent transfers from the Operating and the Debt and Interest Budgets.

^bThe Operating Budget includes trust fund surpluses totaling \$9.6 and \$14.3 billion for fiscal years 1988 and 1989, respectively.

^cSubject to the statutory limit are \$2,336 billion of the beginning 1988, \$2,586.9 billion of the beginning 1989, and \$2,829.8 of the ending 1989 gross debt.

APPENDIX I

APPENDIX I

Debt and Interest Budget

	<u>1988</u>	<u>1989</u>
Debt		
Beginning of fiscal year	\$2,345.6 ^c	\$2,600.8 ^c
End of fiscal year	<u>2,600.8^c</u>	<u>2,866.2^c</u>
Net borrowing for fiscal year (S. 101 budget deficit)	\$ <u>255.2</u>	\$ <u>265.4</u>
Statutory debt limit	\$2,800.0	\$3,122.7
Interest on debt	\$ 215.8	\$ 242.7

	<u>1988</u>	<u>1989</u>
Surplus (deficit)		
Retirement	\$ 87.8	\$ 109.4
Operating	(27.1)	(18.7)
Interest on debt	<u>(215.8)</u>	<u>(242.7)</u>
Budget deficit (OMB budget deficit)	\$ <u>(155.1)</u>	\$ <u>(152.0)</u>

Table I.2: Budgets Proposed in S. 101 - An Analysis of Increases and Decreases From Fiscal Year 1988 to 1989

Dollars in billions

<u>Retirement Funds Budget</u>			<u>Operating Budget</u>		
	Increase (decrease)	Percent Increase (decrease)		Increase (decrease)	Percent Increase (decrease)
Trust balances at beginning of fiscal year	\$ 87.8	25	Receipts		
Receipts			Personal income	\$44.0	11
Taxes and employer contributions	\$ 30.9	10	Corporate income	9.1	10
Federal contributions	6.9	7	Excise taxes	(1.1)	(3)
Interest on investments	8.7	24	Other receipts		
Total receipts	\$ 46.5	10	Other taxes and fees	1.8	3
			Intragovernmental receipts	0.1	0 ^a
			Proprietary receipts	1.4	5
			Offsetting collections	(4.1)	3
			Total revenues	\$51.2	6
Outlays (payments)	24.9	7	Total outlays	42.8	5
Fiscal years' surplus	\$ 21.6	25	Fiscal years' deficits	\$ 8.4	31
Trust balances at end of fiscal year	<u>\$109.4</u>	25			
<hr/>					
<u>Combined Budgets on a Gross Basis</u>					
	Increase (decrease)	Percent Increase (decrease)		Increase (decrease)	Percent Increase (decrease)
Receipts (revenues)			Outlays (payments)		
Retirement	\$46.5	10	Retirement	\$24.9	7
Operating	51.2	6	Operating	42.8	5
			Interest on debt	26.9	12
Gross receipts	<u>\$97.7</u>	8	Gross outlays	<u>\$94.6</u>	7

Notes:

1. Gross data is from receipt accounts . . . appropriation accounts which include budget, intragovernmental, and proprietary receipts. Offsetting collections from the public have been added to both receipts and outlays.

2. Numbers may not add due to rounding.

^aRounded from 0.2 percent.

^bThis amount represents a decrease in the Operating Budget deficit.

APPENDIX I

APPENDIX I

Debt and Interest Budget

	Increase (decrease)	Percent Increase (decrease)
Debt		
Beginning of fiscal year	\$255.2	11
End of fiscal year	<u>265.4</u>	10
Net borrowing for fiscal years (S. 101 budget deficit)	<u>\$ 10.2</u>	4
Statutory debt limit	\$322.7	12
Interest on debt	\$ 26.9	12

	Increase (decrease)	Percent Increase (decrease)
Surplus (deficit)		
Retirement	\$ 21.6	25
Operating	8.4 ^b	31
Interest on debt	<u>(26.9)</u>	(12)
Budget deficit (OMB budget deficit)	<u>\$ 3.1</u>	2

Table I.3: Budgets Proposed in S. 101 Using OMB's Projected Budget Numbers for Fiscal Year 1990

Dollars in billions

<u>Retirement Funds Budget</u>		<u>Operating Budget</u>	
Trust balances at beginning of fiscal year	\$544.4	Receipts	
Receipts		Personal Income	\$490.0
Taxes and employer contributions	\$374.5	Corporate income	112.0
Federal contributions	107.6 ^a	Excise taxes	36.2
Interest on investments	<u>52.8^a</u>	Other receipts	
Total receipts	\$535.0	Other taxes and fees	72.4
		Intragovernmental receipts	30.3
		Proprietary receipts	25.2
		Offsetting collections	<u>154.7</u>
		Total revenues	\$920.7
Outlays (payments)	\$420.6	Total outlays	\$902.0
Fiscal year 1990 surplus	<u>\$114.4</u>	Fiscal year 1990 surplus ^b	<u>\$ 18.7</u>
Trust balances at end of fiscal year 1990	\$658.8		

Combined Budgets on a Gross Basis

Receipts (revenues)		Outlays (payments)	
Retirement	\$ 535.0	Retirement	\$ 420.6
Operating	920.7	Operating	902.0
		Interest on debt	<u>256.9</u>
Gross receipts	\$1,455.7	Gross outlays	<u>\$1,579.5</u>

Notes:

1. Gross data is from receipt accounts and appropriation accounts which include budget, intragovernmental, and proprietary receipts. Offsetting collections from the public have been added to both receipts and outlays.

2. Numbers may not add due to rounding.

^aThese amounts represent transfers from the Operating and the Debt and Interest Budgets.

^bS. 101 requires that any Operating Budget surplus be transferred to the Debt and Interest Budget.

^cSubject to the statutory limit are \$2,829.8 billion of the beginning 1990 and \$3,071.1 billion of the ending gross debt.

Debt and Interest Budget

Debt	
Beginning of fiscal year 1990	\$2,866.2 ^c
End of fiscal year 1990	<u>3,113.3^c</u>
Net borrowing for fiscal year 1990	
(S. 101 budget deficit)	\$ <u>247.1</u>
Statutory debt limit	\$3,122.7
Interest on debt	\$ 256.9

Surplus (deficit)	
Retirement	\$ 114.4
Operating	18.7
Interest on debt	<u>(256.9)</u>
Budget deficit (OMB budget deficit)	<u>\$(123.8)</u>

Table I.4: Budgets Proposed in S. 101 Using OMB's Projected Budget Numbers for Fiscal Year 1991

Dollars in billions

<u>Retirement Funds Budget</u>		<u>Operating Budget</u>	
Trust balances at beginning of fiscal year	\$658.8	Receipts	
Receipts		Personal income	\$528.5
Taxes and employer contributions	\$412.4	Corporate income	129.7
Federal contributions	111.1 ^a	Excise taxes	37.6
Interest on investments	<u>60.8^a</u>	Other receipts	
Total receipts	\$584.3	Other taxes and fees	73.9
		Intragovernmental receipts	30.5
		Proprietary receipts	51.1
		Offsetting collections	
		Total revenues	
Outlays (payments)	\$440.1	Total outlays	\$921.9
Fiscal year 1991 surplus	\$144.2	Fiscal year 1991 surplus ^b	<u>\$ 55.7</u>
Trust balances at end of fiscal year 1991	\$803.0		

<u>Combined Budgets on a Gross Basis</u>			
Receipts (revenues)		Outlays (payments)	
Retirement	\$ 584.3	Retirement	\$ 440.1
Operating	977.7	Operating	921.9
		Interest on debt	<u>263.0</u>
Gross receipts	<u>\$1,562.0</u>	Gross outlays	<u>\$1,625.0</u>

Notes:

1. Gross data is from receipt accounts and appropriation accounts which include budget, intragovernmental, and proprietary receipts. Offsetting collections from the public have been added to both receipts and outlays.

2. Numbers may not add due to rounding.

^aThese amounts represent transfers from the Operating and the Debt and Interest Budgets.

^bS. 101 requires that any Operating Budget surplus be transferred to the Debt and Interest Budget.

^cSubject to the statutory limit are \$3,071.1 billion of the beginning 1991 and \$3,276.6 billion of the ending gross debt.

^dThis amount exceeds the statutory limit.

Debt and Interest Budget

Debt	
Beginning of fiscal year 1991	\$3,113.3 ^c
End of fiscal year 1991	<u>3,319.2^d</u>
Net borrowing for fiscal year 1991	
(S. 101 budget deficit)	\$ <u>205.9</u>
Statutory debt limit	\$3,122.7
Interest on debt	\$ 263.0

Surplus (deficit)	
Retirement	\$ 144.2
Operating	55.7
Interest on debt	<u>(263.0)</u>
Budget deficit (OMB budget deficit)	\$ <u>(63.1)</u>

BUDGETARY IMPACT OF THE SOCIAL SECURITY
AND MEDICARE TRUST FUNDS SURPLUSES

The Social Security and Medicare Trust Funds are included in the Retirement Funds Budget. The Retirement Funds Budget, as outlined in S. 101, is made up of the following accounts:

- Federal Old-Age and Survivors Insurance Trust Fund,
- Federal Disability Insurance Trust Fund,
- Civil Service Retirement and Disability Fund,
- Military Retirement Fund,
- Federal Supplementary Medical Insurance Trust Fund,
- Federal Hospital Insurance Trust Fund, and
- Railroad Retirement Fund.

The Federal Old-Age and Survivors Insurance Trust Fund and the Federal Disability Insurance Trust Fund make up the Social Security Trust Funds. These funds comprised 57.4 percent of total S. 101 Retirement Funds Budget receipts and 60 percent of total outlays for 1989. Since Social Security Trust Funds represent a significant portion of the S. 101 Retirement Funds Budget, tables II.1 and II.2 show the breakdown for these funds' fiscal year 1989 receipts and outlays.

Tables II.1 and II.2 also provide a breakdown for Medicare Trust Funds, which include the Federal Supplementary Medical and the Federal Hospital Insurance Trust Funds. The remaining Retirement Budget trust funds are included as one total.

Table II.3 shows the three budgets defined in S. 101 with the Medicare Trust Funds switched from the Retirement Funds Budget to the Operating Funds Budget for fiscal year 1989. By switching the Medicare Trust Funds' \$22.3 billion surplus to the Operating Budget, the Operating Budget's deficit of \$18.7 billion becomes a surplus of \$3.6 billion. Furthermore, surpluses in other trust funds contained in the Operating Budget, such as the Highway and the Airport and Airways Trust Funds, reduce the Operating deficit by another \$14.3 billion. Without these trust fund surpluses, the combined deficit in the Operating Budget for fiscal year 1989 would be \$33 billion.

Table II.1: Retirement Receipts for Fiscal Year 1989

Dollars in billions

	<u>Tax and contributions</u>		<u>Federal employer contributions</u>		<u>Interest</u>		<u>Total receipts</u>	
	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>	<u>Amount</u>	<u>Percent</u>
Social Security Trust Funds	\$263.7	75.4	\$ 11.0	10.6	\$11.4	25.4	\$286.1	57.4
Medicare Trust Funds	77.5	22.2	33.8	32.4	7.6	17.0	118.9	23.8
All other	<u>8.4</u>	<u>2.4</u>	<u>59.4</u>	<u>57.0</u>	<u>25.9</u>	<u>57.6</u>	<u>93.7</u>	<u>18.8</u>
Total	<u>\$349.6</u>	100.0	<u>\$104.2</u>	100.0	<u>\$44.9</u>	100.0	<u>\$498.7</u>	100.0

Table II.2: Retirement Payments for Fiscal Year 1989

Dollars in billions

<u>Fund</u>	<u>Payments</u>	<u>Percent</u>
Social Security Trust Funds	\$233.6	60.0
Medicare Trust Funds	96.6	24.8
All other	<u>59.1</u>	<u>15.2</u>
Total	<u>\$389.3</u>	100.0

Table II.3: Budgets Proposed in S. 101 With Medicare Trust Funds Switched From the Retirement Funds Budget to the Operating Budget for Fiscal Year 1989

Dollars in billions

<u>Retirement Funds Budget</u>		<u>Operating Budget</u>	
Trust balances at beginning of fiscal year 1989	\$435.0	Receipts	
Receipts		Personal income	\$445.2
Taxes and employer contributions	\$272.1	Corporate income	103.6
Federal contributions	70.4 ^a	Excise taxes	34.1
Interest on investments	<u>37.3^a</u>	Other receipts	
Total receipts	\$379.8	Other taxes and fees	135.8
		Intragovernmental receipts	73.5
		Proprietary receipts	38.9
		Offsetting collections	<u>129.9</u>
		Total revenues	\$961.0
Outlays (payments)	\$292.7	Total outlays	\$957.4
Fiscal year 1989 surplus	\$ 87.1	Fiscal year 1989 surplus ^b	<u>\$ 3.6</u>
Trust balances at end of fiscal year 1989	\$522.1		

Combined Budgets
on a Gross Basis

Receipts (revenues)		Outlays (payments)	
Retirement	\$ 379.8	Retirement	\$ 292.7
Operating	961.0	Operating	957.4
		Interest on debt	<u>242.7</u>
Gross receipts	<u>\$1,340.8</u>	Gross outlays	<u>\$1,492.8</u>

Notes:

1. Gross data is from receipt accounts and appropriation accounts which include budget, intragovernmental, and proprietary receipts. Offsetting collections from the public have been added to both receipts and outlays.

2. Numbers may not add due to rounding.

^aThese amounts represent transfers from the Operating and the Debt and Interest Budgets.

^bS. 101 requires that any Operating Budget surplus be transferred to the Debt and Interest Budget.

^cSubject to the statutory limit are \$2,586.9 billion of the beginning 1989 and \$2,829.8 billion of the ending gross debt.

APPENDIX II

APPENDIX II

Debt and Interest Budget

Debt	
Beginning of fiscal year 1989	\$2,600.8 ^c
End of fiscal year 1989	<u>2,846.2^c</u>
Net borrowing for fiscal year (S. 101 budget deficit)	\$ <u>265.4</u>
Statutory limit	\$3,122.7
Interest on debt	\$ 242.7

Surplus (deficit)	
Retirement	\$ 87.1
Operating	3.6
Interest on debt	<u>(242.7)</u>
Budget deficit (OMB budget deficit)	<u>\$(152.0)</u>

ANALYSIS OF CHANGES IN DEBT, THE DEFICIT,
BORROWING, AND GROSS INTEREST ON DEBT

The gross debt¹ continued to increase from the end of fiscal year 1986 to the end of fiscal year 1989, from about \$2.1 trillion to about \$2.9 trillion. This is an increase of about \$800 billion in three years.

The debt increase results from annual borrowing. Annual borrowing is necessary when total outlays exceed total receipts. Tables I.1 through I.4 show that (1) receipts exceed outlays in the Retirement Funds Budget for all years, (2) in the Operating Budget, outlays exceed receipts for 1988 and 1989 and receipts are projected to exceed outlays for 1990 and 1991, and (3) borrowing is necessary in all years to pay the annual interest cost in the Debt and Interest Budget. S. 101 considers the increase in the gross debt from one year to the next as the annual deficit; OMB considers the deficit as the difference between net receipts and net outlays. The OMB method results in a deficit reduced by the surpluses in trust funds.

The annual (gross) interest in S. 101 is the total annual interest expenditure including interest paid to trust funds. OMB considers net interest, which excludes the interest paid to trust funds, as the annual interest cost.

Figure III.1, showing the S. 101 Operating Budget deficit or surplus for fiscal years 1988 through 1991, indicates a swing of \$74.4 billion from a deficit of \$18.7 billion in fiscal year 1989 to a surplus of \$55.7 billion by 1991.

Figure III.2, showing the deficits for fiscal years 1988 and 1989, compares the OMB deficits, which are reduced by trust fund surpluses, with the S. 101 deficits, the annual increases in the gross debt.

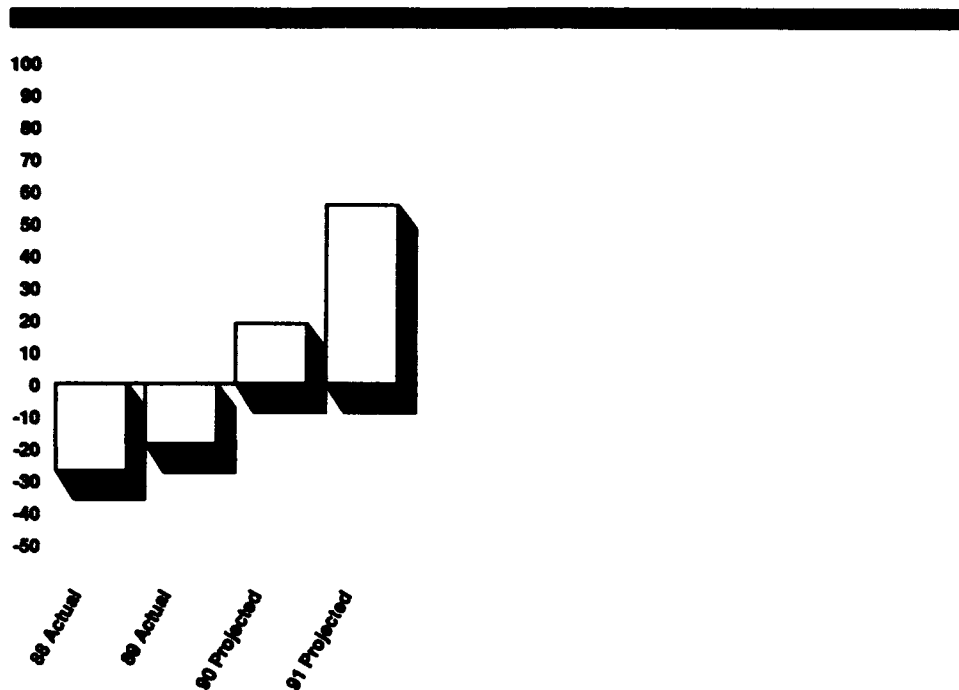
Figures III.3, III.4, and III.5 identify the percentage of annual borrowing needed to cover annual interest costs by showing interest payments as a percentage of net borrowing from one fiscal year to the next for 1988, 1989, and 1990. Use of OMB's fiscal year 1991 projections in the three budgets proposed in S. 101--Retirement Funds, Operating, and Debt and Interest--

¹Gross federal debt, as defined by OMB, is the sum of the debt held by the public and the debt held by the government itself, which includes such investments as the Treasury debt held by the Social Security, Unemployment, and other trust funds.

indicates that the annual interest cost² will exceed borrowing by \$37.2 billion for 1991.

Figure III.6 compares the annual gross interest amount (as defined in S. 101) with net interest (as calculated by OMB) using actual data for 1986 through 1991.

Figure III.1: The S. 101 Operating Budget Deficit or Surplus
(Dollars in billions)



-- Using projected numbers, this budget shows a surplus starting in fiscal year 1990.

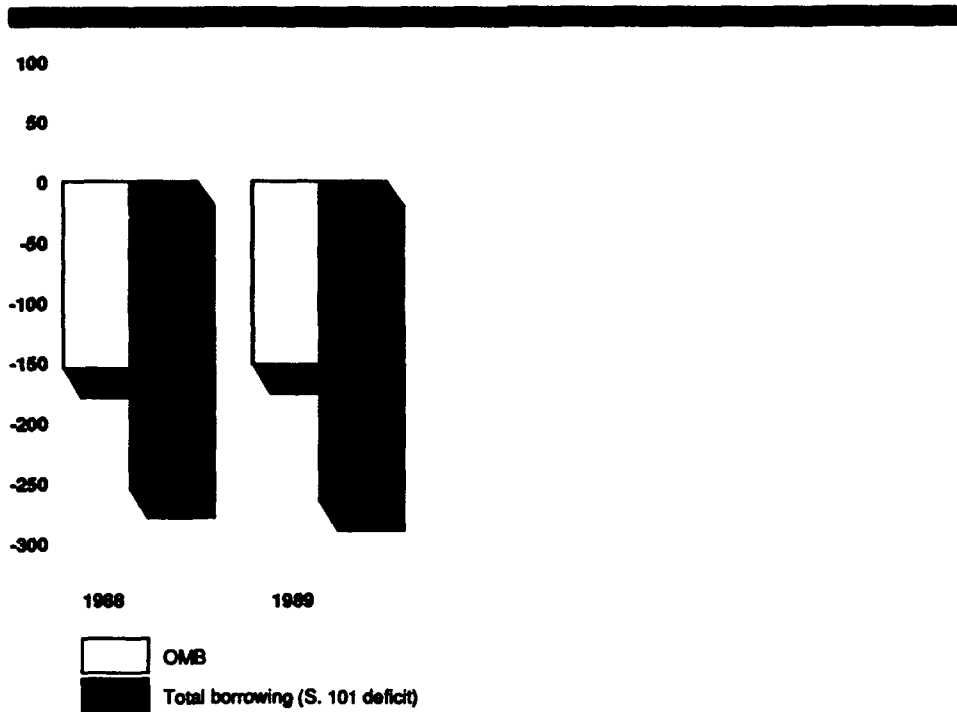
Note:

Per S. 101, all operating budget surpluses must be transferred to the Debt and Interest Budget.

²For these illustrations, interest the federal government receives is subtracted from gross interest to provide a basis for comparison with net borrowing.

Figure III.2: Comparison of OMB and S. 101 Fiscal Years' 1988 and 1989 Deficits

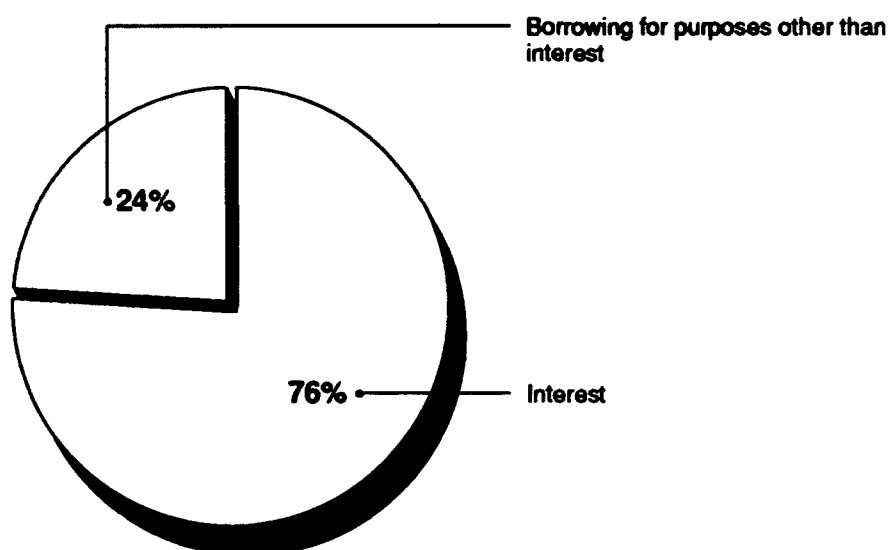
(Dollars in billions)



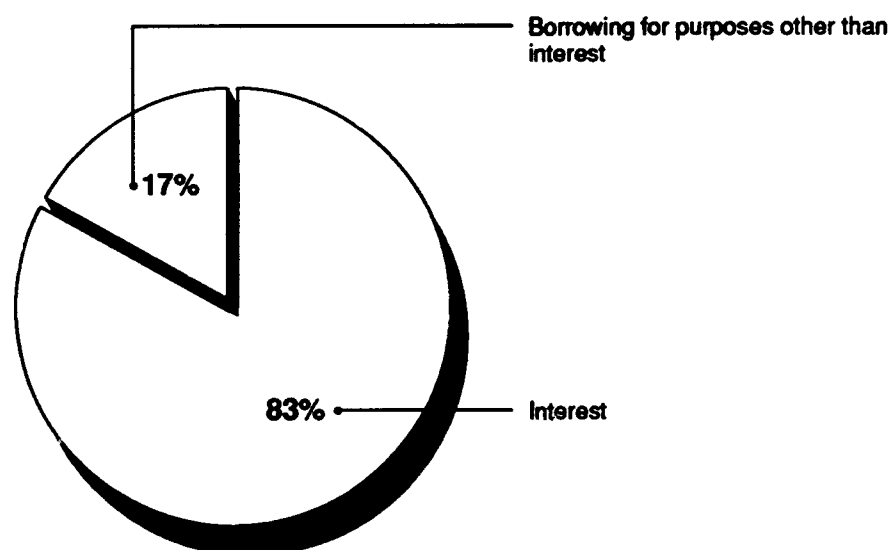
- The OMB deficit decreased by \$3.1 billion from fiscal year 1988 to 1989.
- The S. 101 deficit increased by \$10.2 billion from fiscal year 1988 to 1989.
- The S. 101 deficit significantly exceeds the OMB deficit in both years.

Notes:

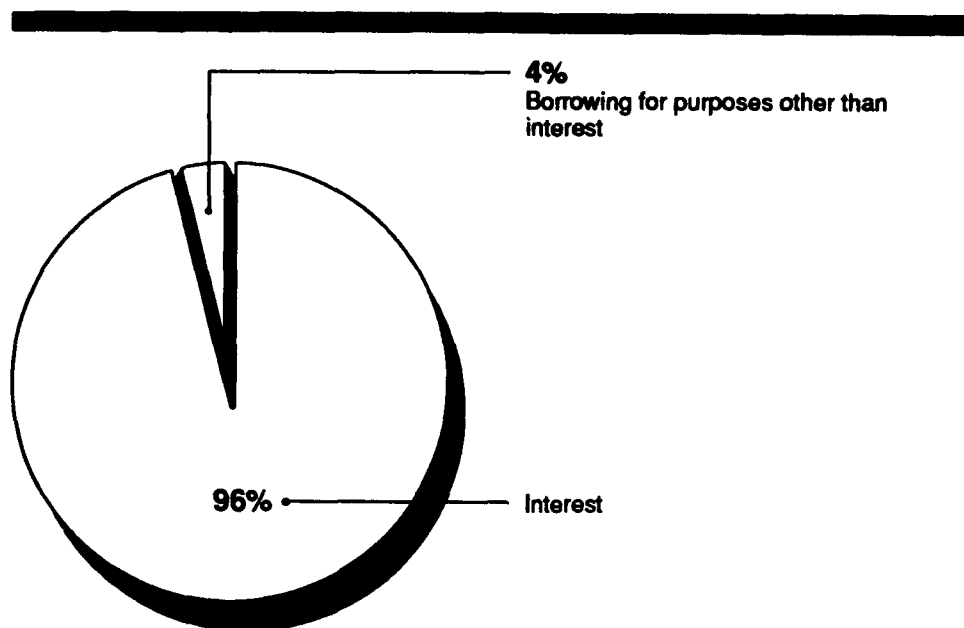
1. The OMB deficit is reduced by trust fund surpluses of \$97.4 and \$123.7 billion for fiscal years 1988 and 1989, respectively.
2. The S. 101 deficit is the annual increase in the gross debt.

Figure III.3: Composition of Fiscal Year 1988 Net Borrowing

-- Interest was \$193.6; borrowing for purposes other than interest was \$61.6 billion.

Figure III.4: Composition of Fiscal Year 1989 Net Borrowing

-- Interest was \$221.1 billion; borrowing for purposes other than interest was \$44.3 billion.

Figure III.5: Composition of Fiscal Year 1990 Net Borrowing

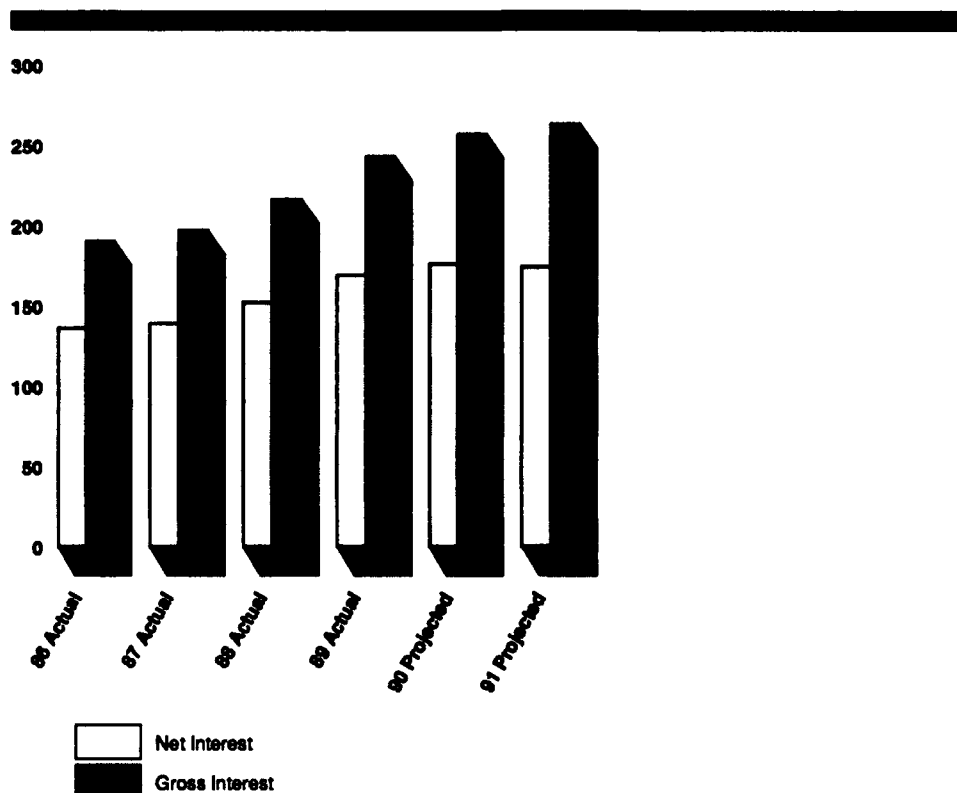
-- Interest was \$236.4 billion; borrowing for purposes other than interest was \$10.7 billion.

Composition of Fiscal Year 1991 Net Borrowing

According to OBM projections, net borrowing for fiscal year 1991 will be \$205.9 billion, and interest payments will be \$243.1 billion. Interest will exceed borrowing by \$37.2 billion for fiscal year 1991; therefore, all borrowing will be for interest payments.

Figure III.6: A Comparison of Gross and Net Interest for Fiscal Years 1986 Through 1991

(Dollars in billions)



- Both gross and net interest continued to increase from fiscal year 1986 through 1989.
- Gross interest will continue its increase in fiscal year 1991, according to calculation with projected budget numbers.
- Net interest will decrease in fiscal year 1991 from 1990 according to calculation with projected budget numbers.

Notes:

1. Amounts for 1986 through 1989 are based on actual data; those for 1990 and 1991 are based on OMB projections.
2. Net interest does not include interest payments to trust funds such as Social Security and Civil Service Retirement.
3. Gross interest includes total annual interest expenditures.

A COMPARISON OF OMB AND CBO ESTIMATES

For fiscal years 1986 through 1989, we compared CBO's baseline projections and OMB's Presidential policy projections for borrowing and debt made in the January and February before each fiscal year with the actual results that were available from OMB 2 years after the initial projections were made. These OMB projections are based on the President's budget policy (including assumed changes in current law) and economic assumptions, while these CBO projections are based on current law and CBO economic assumptions. While assumptions for these projections differ, this comparison is still useful to show which entity has been a better predictor of actual outcomes. As table IV.1 indicates, CBO's estimates have been generally a better predictor than OMB's.

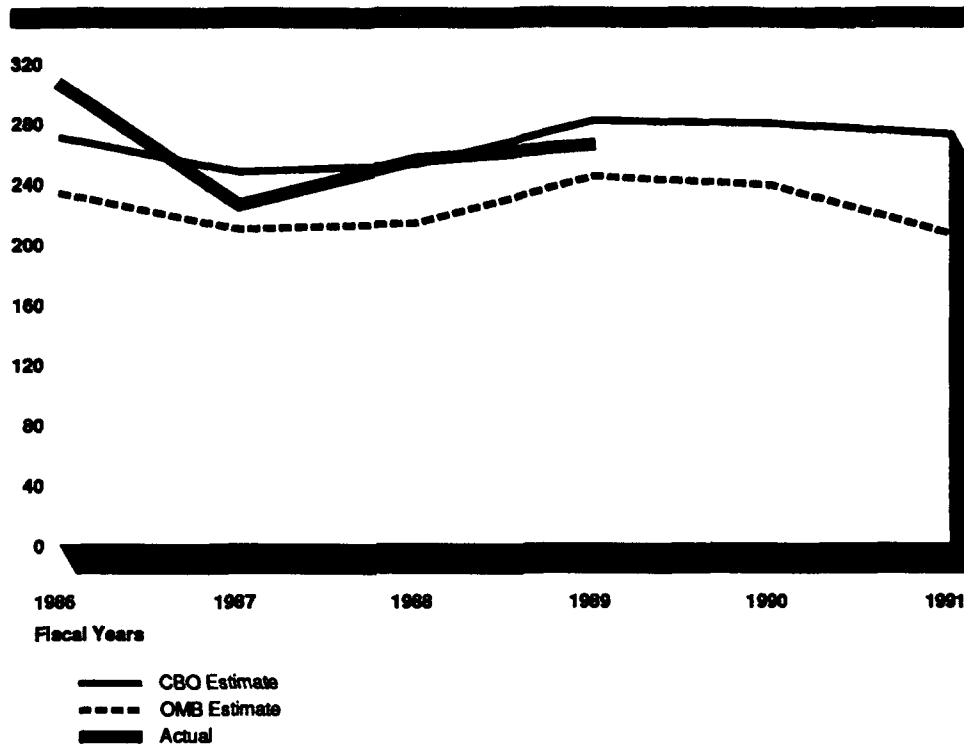
Table IV.1 compares OMB and CBO total borrowing estimates with actual results for fiscal years 1986 through 1989. Total borrowing includes fiscal year borrowing both from the public and from government accounts; S. 101 designates this total amount as the deficit. Tables IV.2 and IV.3 break total borrowing into borrowing from the public and from government accounts (such as the Social Security Trust Funds), respectively, and provide the same OMB and CBO comparison as table IV.1. Table IV.4 shows this same comparison for debt. Figures IV.1, IV.2, and IV.3 provide graphic representations of tables IV.1, IV.2, and IV.3.

Table IV.1: Comparison of OMB and CBO Total Borrowing Estimates With Actual Amounts

Dollars in billions

	Fiscal year <u>1986</u>	Fiscal year <u>1987</u>	Fiscal year <u>1988</u>	Fiscal year <u>1989</u>
<u>Total borrowing</u>				
CBO baseline estimate	\$270	\$247	\$252	\$281
Actual borrowing	306	225	255	265
Difference	\$ <u>(36)</u>	\$ <u>22</u>	\$ <u>(3)</u>	\$ <u>16</u>
OMB Presidential policy estimate	\$233	\$209	\$213	\$244
Actual borrowing	306	225	255	265
Difference	\$ <u>(73)</u>	\$ <u>(16)</u>	\$ <u>(42)</u>	\$ <u>(21)</u>

Figure IV.1: Total Borrowing
(Dollars in billions)



- Since 1986, OMB's total borrowing estimates have been lower than actual borrowing.
- Since 1986, with the exception of 1987, CBO's total borrowing estimates have been closer to actual borrowing than OMB's.

Table IV.2: Comparison of OMB and CBO Public Borrowing Estimates With Actual Amounts

Dollars in billions

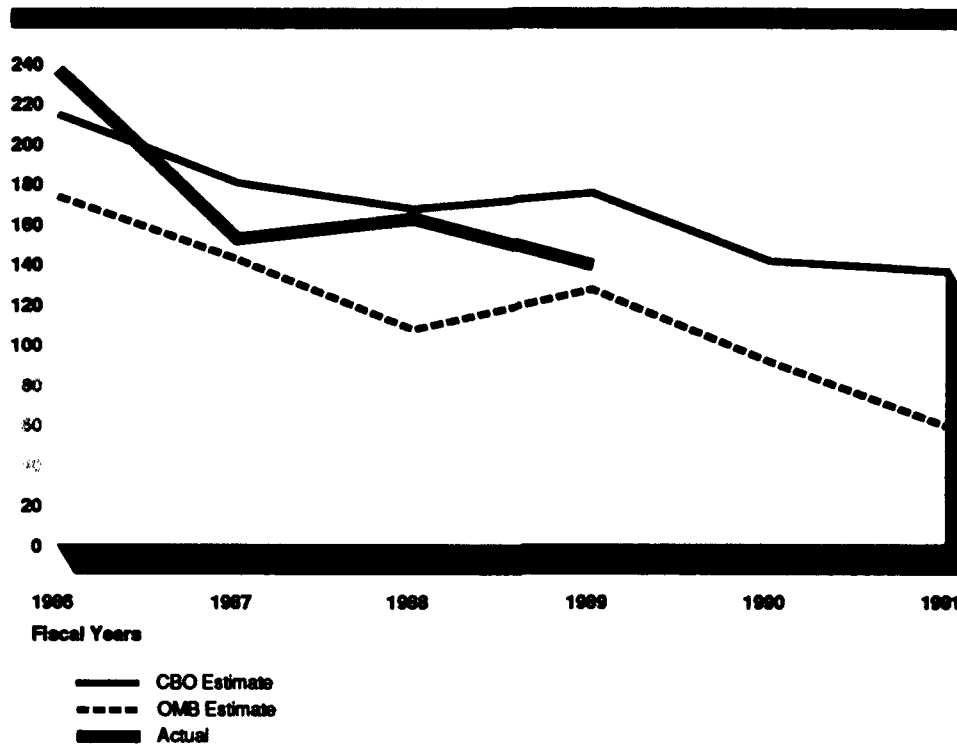
<u>Borrowing from the public</u>	Fiscal year <u>1986</u>	Fiscal year <u>1987</u>	Fiscal year <u>1988</u>	Fiscal year <u>1989</u>
CBO baseline estimate	\$214	\$180	\$167	\$175
Actual borrowing	236	152	162	139
Difference	<u>\$(22)</u>	<u>\$ 28</u>	<u>\$ 5</u>	<u>\$ 36</u>
OMB Presidential policy estimate	\$173	\$142	\$107	\$127
Actual borrowing	236	152	162	139
Difference	<u>\$(63)</u>	<u>\$(10)</u>	<u>\$(55)</u>	<u>\$(12)</u>

Table IV.3: Comparison of OMB and CBO Government Borrowing Estimates With Actual Amounts

Dollars in billions

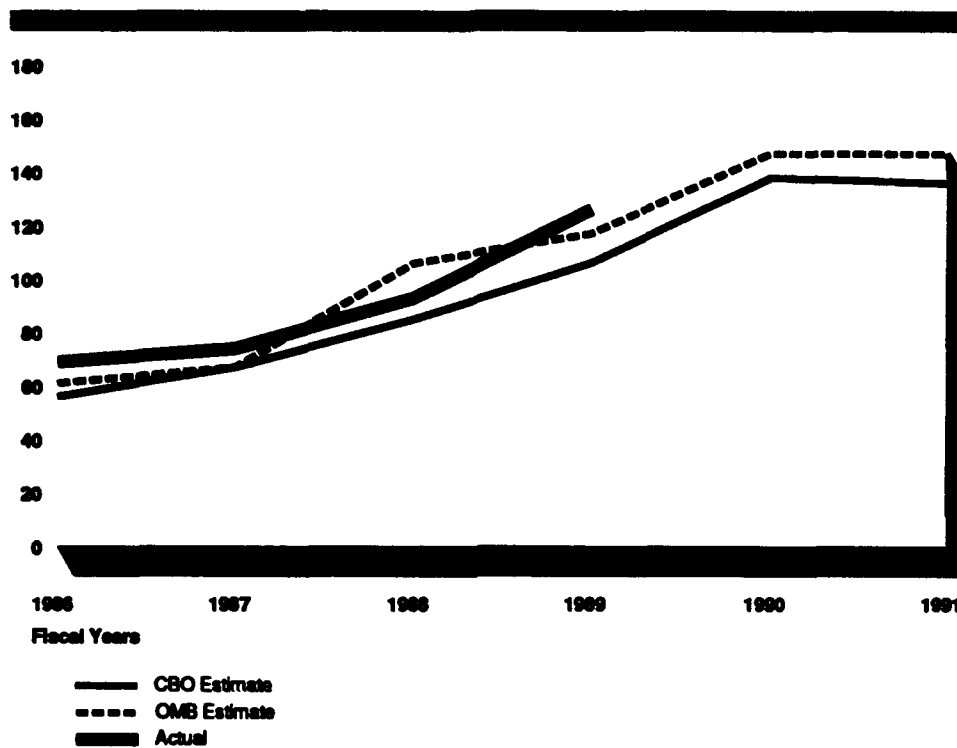
<u>Borrowing from government accounts</u>	Fiscal year <u>1986</u>	Fiscal year <u>1987</u>	Fiscal year <u>1988</u>	Fiscal year <u>1989</u>
CBO baseline estimate	\$ 56	\$67	\$ 85	\$106
Actual borrowing	69	74	93	126
Difference	<u>\$(13)</u>	<u>\$(7)</u>	<u>\$(8)</u>	<u>\$(20)</u>
OMB Presidential policy estimate	\$ 61	\$67	\$106	\$117
Actual borrowing	69	74	93	126
Difference	<u>\$(8)</u>	<u>\$(7)</u>	<u>\$ 13</u>	<u>\$(9)</u>

Figure IV.2: Borrowing From the Public
(Dollars in billions)



-- From 1986 through 1989, OMB has underestimated borrowing from the public.

Figure IV.3: Borrowing From Government Accounts
(Dollars in billions)



-- Borrowing from government accounts continues to increase.

Table IV.4: Comparison of OMB and CBO Total Debt Estimates With Actual Amounts

Dollars in billions

	Fiscal Year <u>1986</u>	Fiscal Year <u>1987</u>	Fiscal Year <u>1988</u>	Fiscal Year <u>1989</u>
CBO baseline estimate	\$2,123	\$2,362	\$2,617	\$2,880
Actual borrowing	<u>2,133</u>	<u>2,355</u>	<u>2,601</u>	<u>2,866</u>
Difference	<u>\$ (10)</u>	<u>\$ (7)</u>	<u>\$ (16)</u>	<u>\$ (14)</u>
OMB Presidential policy estimate	\$2,074	\$2,321	\$2,586	\$2,825
Actual borrowing	<u>2,133</u>	<u>2,355</u>	<u>2,601</u>	<u>2,866</u>
Difference	<u>\$ (59)</u>	<u>\$ (34)</u>	<u>\$ (15)</u>	<u>\$ (41)</u>

Note:

CBO's estimates were closer to the actual total debt than OMB's estimates for 1986, 1987, and 1989.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of this report are to provide (1) actual fiscal year 1988 and 1989 and projected 1990 and 1991 budget numbers for the budgets proposed in S. 101, (2) a comparison of fiscal years 1988 and 1989 to show the increase or decrease in amounts reported in the three budgets, (3) a treatment of the budgetary impact of the Social Security and Medicare Trust Fund surpluses, (4) an analysis of changes in debt, borrowing, the deficit, and interest on debt, and (5) a comparison of OMB and CBO estimates for debt and borrowing to the actual results.

Our work was performed in January and February 1990. We used OMB's fiscal year 1991 budget tape to prepare computer listings of receipts (receipt accounts). We used the Budget of the United States Government, Fiscal Year 1991 to prepare schedules showing specific outlay amounts for each of the retirement accounts as well as total outlay schedules.

Our totals differ from OMB totals in that our gross amounts include a distribution of all offsetting receipts and collections into the categories defined in S. 101. For the most part, OMB deducts offsetting receipts from agency and functional totals. However, OMB also shows large deductions from budget totals that are undistributed. These include agencies' payments into employee retirement trust funds, interest received by trust funds, and certain proprietary receipts such as rents and royalties from outer continental shelf lands.

To identify receipts and outlays for the Retirement Budget, we used those accounts specified in S. 101. We then identified the associated receipt and appropriation accounts.

To identify current interest and debt data, we used OMB's fiscal year 1991 budget tape as well as Budget of the United States Government, Fiscal Year 1991. To identify interest and debt data, we used the OMB and CBO publications listed at the end of this appendix.

In analyzing OMB and CBO debt and borrowing estimates for fiscal years 1986 through 1989, we compared the initial estimates made by OMB and CBO in January or February of the preceding fiscal year with the actual amounts available from OMB 2 years after the initial estimates were made. OMB projections are based on the President's budget policy (including assumed changes in current law) and economic assumptions, while CBO projections are based on current law and CBO economic assumptions.

We used the following publications to obtain specific information about various accounts, to obtain historical data for

our comparison of OMB and CBO estimates, and for our special analysis of borrowing and interest.

OMB Publications:

Budget of the United States Government, Fiscal Year 1991

Budget of the United States Government, Fiscal Year 1990

Budget of the United States Government, Fiscal Year 1989

Budget of the United States Government, Fiscal Year 1988

Budget of the United States Government, Fiscal Year 1987

Budget of the United States Government, Fiscal Year 1986

Special Analyses: Budget of the United States Government,
Fiscal Year 1990

Special Analyses: Budget of the United States Government,
Fiscal Year 1989

Special Analyses: Budget of the United States Government,
Fiscal Year 1988

Special Analyses: Budget of the United States Government,
Fiscal Year 1987

Special Analyses: Budget of the United States Government,
Fiscal Year 1986

CBO Publications:

The Economic and Budget Outlook: Fiscal Years 1986-1990

The Economic and Budget Outlook: Fiscal Years 1987-1991

The Economic and Budget Outlook: Fiscal Years 1988-1992

The Economic and Budget Outlook: Fiscal Years 1989-1993

The Economic and Budget Outlook: Fiscal Years 1990-1994

The Economic and Budget Outlook: Fiscal Years 1991-1995

Treasury Publication:

Final Monthly Treasury Statement of Receipts and Outlays of
the United States Government (for Fiscal Year 1989 Through
September 30, 1989, and Other Periods)

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